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SUBJECT: DPP Will Pay the Price for New Highway Toll System

¶11. (SBU) Summary: Taiwan's new electronic toll collection (ETC) system has come under fire for the high costs to drivers and snarled traffic despite low usage rates. There have also been accusations of corruption in the bidding process. The ETC is only latest in a series of transportation build-operate-transfer (BOT) projects that have run into difficulty and become political scandals. It will further reduce the likelihood that Taiwan will use BOT financing for future infrastructure projects. This public relations embarrassment could also harm the ruling Democratic Progressive Party's (DPP) prospects in mayoral elections later this year as well as Premier Su Tseng-chang's chances of securing the DPP nomination in the 2008 presidential election. End summary.

¶12. (U) Taiwan awarded the ETC contract, which has been valued at up to NT\$ 10 billion (about US\$ 310 million), to Far Eastern Toll Collection Company (FETC) in February 2004. FETC beat out seven other bidders. Under the BOT contract, FETC sells and installs on-board units (OBUS) with prepaid toll cards so that vehicles can pass quickly through separate automatic toll collection lanes on Taiwan's freeways. The system went into operation on two of Taiwan's busiest freeways February 10, 2006. Since then, a series of difficulties have turned the system into a political problem for the Taiwan government.

Problems: Too Expensive...

¶13. (U) Late last year drivers, legislators, and Taiwan's Consumer Foundation started criticizing the cost of the OBUs. Initially the total cost of installing an OBU, including extra charges for the battery, toll card, minimum toll credit and installation, was NT\$ 2,249 (about US\$ 69). Critics claimed that FETC could sell the units at a profit for as little as NT\$ 900 (US\$ 28). Others complained that the 5 percent discount on tolls for ETC users was too low. FETC answered the charges by claiming that OBUs in Japan and Singapore were much more expensive at about US\$ 181 and US\$ 92 respectively. The company also announced that it would sell up to 200,000 units at a promotional price of NT\$ 680 (US\$ 21), including installation but not including the NT\$ 200 deposit for the toll card and minimum NT\$ 500 toll credit.

¶4. (U) Because of the high prices, drivers have been slow to purchase OBUs, anticipating that slow sales will force FETC to lower the price. Taiwan's Consumer Foundation has encouraged drivers not to buy the units in order to put pressure on FETC. Bus companies have also boycotted the ETC system because of reduced subsidies for their tolls. Before implementation of the ETC system, the government subsidized NT\$ 49 of every NT\$ 50 toll paid by passenger buses, but after implementation, the subsidy was cut to NT\$ 46.6. In response to the boycott, MOTC announced that it would eliminate subsidies after one month for bus companies that continued to refuse to use the ETC system.

Traffic Jams...

¶5. (U) The numbers of ETC users was initially low, compounding inevitable traffic problems as drivers adjusted to the new system. Only 2.3 percent of drivers took advantage of ETC lanes during the first day of the trial on Taiwan's No. 1 Sun Yat-sen and No. 3 Freeways. With a reduced number of manual toll lanes, there were reports of traffic backed-up for 10 kilometers. Utilization rates rose steadily during the first week of operation, reaching 4.37 percent by February 17 with 9.25 percent of large vehicles using the ETC. However as of March 3, the number of vehicles with installed OBUs had not yet reached 80,000 (about one percent of all vehicles in Taiwan). MOTC announced that it would reduce the number of ETC lanes if the total number of equipped vehicles failed to reach 100,000 by March 9. If the number of ETC lanes is reduced, it will make drivers more reluctant to adopt the new system.

And Perhaps Corruption

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¶6. (U) More serious problems emerged on February 24. The Taiwan High Administrative Court on February 24 ruled that the Ministry of Transportation and Communications (MOTC) decision to award the contract to FETC was unfair and against public interest. Yutung Information Technology Co., the firm that came in second in bidding for the project, had filed the suit that led to the ruling. To comply, MOTC would have to take the BOT project away from FETC and either reopen to bidding or take over the toll collection system itself. MOTC and FETC have decided to appeal the decision. If MOTC is forced to buy back the project from FETC, the estimated cost could be as high as the NT\$ 3 billion (US\$ 93 million) that FETC claims it has already invested in the trial implementation. A rebid could be more expensive still. Uncertainty about the project's future has already increased driver reluctance to adopt the new system.

¶7. (U) In addition, a former MOTC office has been accused of accepting bribes during the bidding process. The Taipei District Prosecutor's Office is investigating former MOTC Minister Lin Ling-san's secretary Soong Nai-wu on charges of illegally leaking secret documents on the bidding process in exchange for bribes. Prosecutors also questioned former Minister Lin on his knowledge of the alleged bribes and possible involvement.

Political Pile-Up

¶8. (SBU) Legislators from both the Pan-Blue and Pan-Green camps have criticized MOTC and FETC's mismanagement of the bidding process and possible corruption, as well as the costs of OBUs, the number of lanes allotted to the ETC, and the fines levied against those who drive through ETC lanes without OBUs. Politicians from both sides have called on MOTC to take over the system from FETC. For now, the administration is sticking with FETC. Last week, both Premier Su Tseng-chang and MOTC Minister Kuo Yao-chi

confirmed that the administration would allow FETC to continue implementing the system, while promising to protect the interests of drivers who have already purchased the OBUs.

Another MOTC BOT Breakdown

¶ 9. (SBU) The ETC is just the latest in a series of troubled MOTC BOT projects that contributed at least in part to Lin's replacement in January by Kuo. Taiwan's high-speed rail project has been delayed one year and has required repeated injections of capital, most recently from government sources. The Kaohsiung MRT project erupted into scandal after protesting foreign workers drew attention to possible corruption associated with the project. The Kaohsiung MRT scandal may have cost the DPP several close races in December's island-wide local elections.

Comment - Bad News for Taiwan's Infrastructure and DPP

¶ 10. (SBU) This latest BOT scandal will likely force the Taiwan government to abandon BOT financing for major projects. Tight budget constraints will preclude direct appropriations for new projects and make further improvements to the island's infrastructure difficult. In addition, the ETC scandal will likely hurt the DPP in coming elections. Inconvenience and added expense have hit voters where they live. The bidding process scandal has focused public outrage at the project. The scandal drove other news items to the back pages of Taiwan dailies for a week and even distracted local attention from Chen's announcement on the National Unification Council and Guidelines. Coverage has started to decline, but the story isn't over. The fate of FETC's contract remains undecided and many drivers will continue to resist buying OBUs, further impeding implementation. The scandal will certainly return to the front pages of Taiwan's newspapers and will likely hurt the DPP's prospects in the Taipei and Kaohsiung mayoral

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elections later this year. In the longer term, it could damage Premier Su, currently the front runner for the DPP presidential nomination. End comment.

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